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State Department review completed

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GENERAL

1. Relations between Argentina and Spain severely strained:

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The Buenos Aires press is bitterly denouncing Spain's continuing failure to agree to a plan for repaying its large debt to Argentina. This debt, arising from credits granted Spain during 1947-49, has been variously estimated between \$66,000,000 and \$182,000,000, depending on the hotly debated exchange rate. Argentina, now in financial straits itself, is especially piqued at Madrid's attitude, because Spain is receiving substantial financial aid under the 1953 economic and military agreements with the United States.

FAR EAST

2. Comment on North Korean foreign minister's renewed call for unification talks:

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Foreign Minister Nam Il's call of 28 October for talks regarding Korean unification takes on special significance in the

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light of the Chou-Nehru agreement to make renewed attempts to settle the Korean problem, possibly at a conference of "neutral Asian nations."

The Chinese and North Korean Communists presumably are trying, by this maneuver, to pose as the champions of Korean unification in particular and the peaceful solution of all international disputes in general and to put the United States and Britain in the position in the eyes of Asians of seeming to oppose these purposes.

Nam's call for a meeting of representatives from the north and south to "expedite unification" offers no new concessions. It is, however, a further step in North Korea's accelerated campaign for economic and cultural interchanges.

Radio Pyongyang has dangled attractive trade offers before the south since July and recently has made propaganda capital out of the current American-South Korean impasse on aid. By combining demands for new talks with trade proposals, Pyongyang apparently hopes to entice South Korea into economic, and finally political, co-operation on Communist terms.

President Rhee has steadfastly opposed more international talks on unification, and has brushed off Pyongyang's trade offers. There is strong sentiment among many Koreans, however, for trade with the north as an alternative to growing "economic domination" by Japan. [Redacted]

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SOUTHEAST ASIA

4. Bao Dai reportedly sets price for his support of Diem:

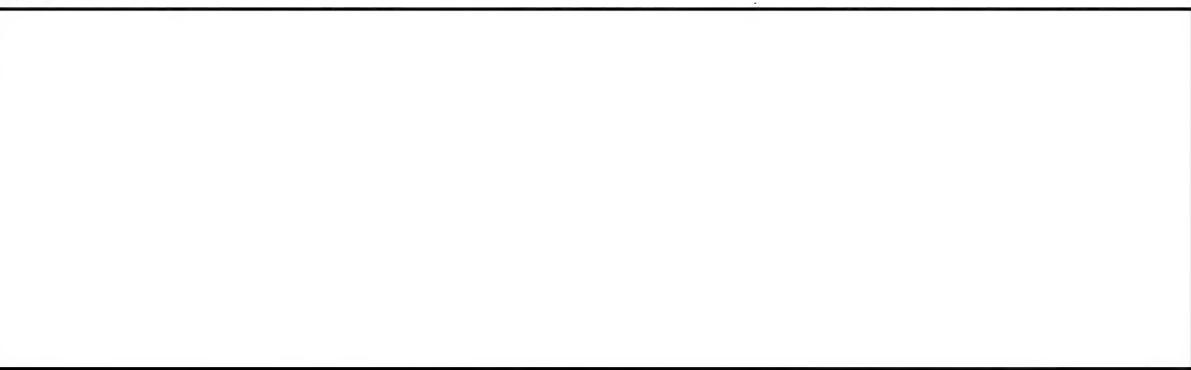
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[Redacted] Bao Dai has sent word by Premier Diem's brother, who arrived in Hanoi on 28 October, that he is prepared to instruct Generals Hinh, Xuan, and Vieh to support the premier in return for certain considerations,

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[Redacted] The considerations are that Bao Dai not be forced to abdicate, and that he be provided with approximately \$1,400,000 and control of the crown domains.

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Bao Dai transferred authority over the crown domains to Diem when the latter became premier. The Binh Xuyen has interests in the rich Annam sector of these lands and may have persuaded Bao Dai to ask for their return.

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8. Comment on political effects of attempted assassination of Egyptian premier:

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[Redacted]
Egyptian prime minister Nasr has achieved genuine popularity and admiration for the first time as a result of his behavior during the attempt on his life in Alexandria on 26 October. Nasr's adroit handling of the situation won the immediate respect of the crowd, which had been unruly and even somewhat hostile to him before the shooting.

Nasr's newly gained popular support, evident in subsequent demonstrations, considerably strengthens the regime in its current contest with the extremist Moslem Brotherhood. The Revolutionary Command Council has now thrown down the gauntlet to the Brotherhood--accused of responsibility for the attack--by again decreeing its dissolution on 29 October, and widespread arrests are reported in progress. The regime has thus gained a notable temporary success, but its long-range prospects are still uncertain.

[Redacted]
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EASTERN EUROPE

9. Tito outlines Yugoslav policy to Stassen:

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[Redacted]

Yugoslav president Tito told Foreign Operations Administrator Stassen on 26 October that Yugoslavia will not cut its defense expenditures although he sees no present danger of Soviet aggression. He thinks the present Soviet leaders dropped Stalin's policies not from choice but because the policies had failed both internally and in the field of foreign affairs. The danger of Soviet aggression could return, he said, if the free world let down its guard.

Tito said that talk of Yugoslavia's going back to the Cominform was "arrant nonsense," and that he had made it clear to Soviet representatives that they must not expect the normalization of relations to alter the growing Yugoslav co-operation with the West. The USSR had accepted this and begun the normalization process on this basis.

Tito called the Balkan alliance one of the cornerstones of Yugoslav policy. He said that collaboration between the alliance and the expanded Brussels pact must in some way encompass the fields of culture, economy, and politics as well as defense.

Comment: Since Tito's visit to Turkey in April, the Yugoslavs have expressed cautious willingness for some sort of co-operation with Western European defense schemes. They have done nothing yet to define the methods or extent to which they are willing to commit themselves, however.

10. East German Communist Party morale shaken by fraudulent elections:

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[Redacted]

According to American assistant high commissioner Parkman in Berlin, the morale of rank and file members of the East German Socialist Unity (Communist) Party (SED), already generally low, has been further shaken

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by the blatant fraudulence of the voting procedure in the 17 October elections. Parkman believes that the SED leadership is already conducting a special screening of cadres to squeeze out political unreliables.

He anticipates that these two factors will at least increase dissension within the party.

Comment: The SED has long been faced with the choice of purging unreliables--the former Social Democrats, the politically indifferent, and the nationalist Communists who oppose specific party policies--or of trying to indoctrinate and integrate them. Since the party leaders must have known that openly fraudulent elections would only increase these elements' disenchantment with the political situation, it seems likely that they had already given up hope of converting such discontents and resolved instead to purge them. [Redacted]

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